



FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020

FILED
11/15/2023

CPAs / ADVISORS





STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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November 15, 2023

Board of Trustees
Putnam County Hospital
1542 S. Bloomington St.
Greencastle, IN 46135

We have reviewed the report of Putnam County Hospital (Hospital), which was engaged to be audited by Blue and Co., LLC, Independent Public Accountants, for the period January 1, 2020 to December 31, 2020. Per the *Report of Independent Auditors*, due to inadequacy of accounting records related to the Hospital's long-term care services for the period ended December 31, 2020, Blue and Co., LLC, was unable to obtain sufficient and appropriate audit evidence to provide a basis for an opinion and accordingly did not express an opinion on the financial statements. Please refer to the Basis for Disclaimer of Opinion paragraph of the *Report of Independent Auditors* on Page 1 for further detail.

In our opinion, Blue and Co., LLC prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

Tammy R. White, CPA
Deputy State Examiner

PUTNAM COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

We were engaged to audit the accompanying financial statements of Putnam County Hospital (the Hospital), a component unit of Putnam County, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Detailed records have not been maintained and certain prior year records and supporting data were not available for audit. Therefore, we were not able to obtain sufficient and appropriate audit evidence about the amounts at which certain assets and liabilities related to the Hospital's long-term care services are recorded in the accompanying statement of net position as of December 31, 2020 (current assets stated at approximately \$29,132,000, net capital assets stated at \$4,258,000, other assets stated at \$1,321,000 and current liabilities stated at \$34,711,000) and the amounts of operating revenues (stated at \$164,899,000) and operating expenses (stated at \$164,899,000) for the year then ended.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for our opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the insufficiency of the accounting records, as discussed in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Blue & Co., LLC

Indianapolis, Indiana
September 11, 2023

REQUIRED SUPPLEMENTARY INFORMATION

PUTNAM COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020

This section of Putnam County Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance. This MD&A also includes the Hospital's blended component units, Putnam Post-Acute Holdings, LLC (PPAH), and Putnam County Pain Management Center, LLC. Please read it in conjunction with the Hospital's financial statements that follow this MD&A.

Financial Highlights

- The Hospital's total assets and deferred outflows increased approximately \$16,739,000 or 19.7% during 2020. Total liabilities increased \$13,264,000 or 23.9% during 2020. The Hospital's net position increased \$3,475,000 or 11.8% in 2020.
- The Hospital added capital assets of approximately \$2,133,000 during 2020. Net additions combined with depreciation expense of \$2,851,000 resulted in net capital assets decreasing \$718,000 from 2019.
- The Hospital reported operating loss of approximately \$7,930,000 for 2020, representing a decrease of \$10,666,000 in comparison to the 2019 operating income of \$2,736,000. The significant change related to the volume and utilization impact of the Coronavirus (COVID-19) pandemic.
- The Hospital recognized nonoperating revenues, net of expenses in 2020 of approximately \$11,459,000. The primary increase was the result of COVID-19 grants of \$11,348,000 recognized during the year.

Using This Annual Report

The Hospital's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities and the financial position of the Hospital. The statement of net position includes all of the Hospital's assets, deferred outflows and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). All of the current year revenue earned and expenses incurred are accounted for in the statement of revenues, expenses and changes in net position.

Finally, the purpose of the statement of cash flows is to provide information about the Hospital's cash flows from operating activities, non-capital financing activities, capital and related financing activities, including capital additions, and investing activities. This statement provides information on the sources and uses of cash and cash equivalents and the change in cash and cash equivalents balances during the year.

Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is, "Is the Hospital, as a whole, better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred outflows and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

PUTNAM COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020

These two statements report the Hospital's net position and changes in it. The Hospital's net position is the difference between assets and deferred outflows and liabilities and deferred inflows. It is one way to measure the Hospital's financial health, or financial position. Over time, changes in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Table 1 – Statements of Net Position

| | 2020 | 2019 | Change |
|------------------------------------|----------------|---------------|---------------|
| Assets | | | |
| Current assets | \$ 72,670,218 | \$ 54,659,527 | \$ 18,010,691 |
| Assets whose use is limited | 1,060,107 | 1,320,732 | (260,625) |
| Capital assets, net | 25,725,293 | 26,443,634 | (718,341) |
| Other assets | 630,609 | 721,174 | (90,565) |
| Total assets | 100,086,227 | 83,145,067 | 16,941,160 |
| Deferred outflows | | | |
| Total assets and deferred outflows | \$ 101,515,644 | \$ 84,776,284 | \$ 16,739,360 |
| Liabilities | | | |
| Current liabilities | \$ 56,539,491 | \$ 42,023,779 | \$ 14,515,712 |
| Long-term liabilities | 12,160,176 | 13,411,497 | (1,251,321) |
| Total liabilities | 68,699,667 | 55,435,276 | 13,264,391 |
| Net position | | | |
| Net investment in capital assets | 7,346,630 | 10,954,641 | (3,608,011) |
| Restricted | 336,144 | 397,364 | (61,220) |
| Unrestricted | 25,133,203 | 17,989,003 | 7,144,200 |
| Total net position | 32,815,977 | 29,341,008 | 3,474,969 |
| Total liabilities and net position | \$ 101,515,644 | \$ 84,776,284 | \$ 16,739,360 |

Total assets and deferred outflows increased approximately \$16,739,000 during 2020. The significant changes in the Hospital's assets were in current assets which increased \$18,011,000 primarily related to cash and cash equivalents. Assets whose use is limited, capital assets, and other assets decreased \$1,070,000 in 2020. Total liabilities increased \$13,264,000 in 2020. The significant changes included an increase in accounts payable of \$4,231,000 as a result of timing. Unearned grant revenue and accelerated/advance payments from Medicare in response to COVID-19 increased liabilities by \$13,942,000. In addition, the Hospital's long-term debt and capital lease obligations increased by \$2,890,000 mainly related to \$4,389,000 from the Paycheck Protection Program offset by principal payments made during the year on long-term debt and capital leases. The Hospital's line of credit decreased by \$5,628,000 as the outstanding balance was paid in full during the year. Net position increased by \$3,475,000 from 2019 to 2020. The increase relates primarily to COVID-19 grant funds of \$11,776,000 recognized in 2020.

PUTNAM COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020

Table 2 – Statements of Revenues, Expenses and Changes in Net Position

| | <u>2020</u> | <u>2019</u> | <u>Change</u> |
|---|----------------------|----------------------|---------------------|
| Operating revenues | | | |
| Net patient service revenue | \$ 227,690,470 | \$ 194,254,560 | \$ 33,435,910 |
| Rental income | 151,044 | 98,345 | 52,699 |
| Other operating revenue | <u>3,956,742</u> | <u>2,185,919</u> | <u>1,770,823</u> |
| Total operating revenues | 231,798,256 | 196,538,824 | 35,259,432 |
| Operating expenses | | | |
| Salaries, wages and benefits | 29,126,973 | 27,631,023 | 1,495,950 |
| Professional fees and contract services | 169,980,784 | 122,077,974 | 47,902,810 |
| Supplies | 18,999,375 | 21,246,651 | (2,247,276) |
| Depreciation and amortization | 3,052,973 | 2,760,342 | 292,631 |
| Other | <u>18,568,334</u> | <u>20,086,836</u> | <u>(1,518,502)</u> |
| Total operating expenses | <u>239,728,439</u> | <u>193,802,826</u> | <u>45,925,613</u> |
| Operating income (loss) | (7,930,183) | 2,735,998 | (10,666,181) |
| Nonoperating revenues (expenses) | <u>11,458,706</u> | <u>(349,603)</u> | <u>11,808,309</u> |
| Excess revenues over expenses | 3,528,523 | 2,386,395 | 1,142,128 |
| Other | | | |
| Distributions to non-controlling interest | <u>(53,554)</u> | <u>-0-</u> | <u>(53,554)</u> |
| Change in net position | 3,474,969 | 2,386,395 | 1,088,574 |
| Net position | | | |
| Beginning of year | <u>29,341,008</u> | <u>26,954,613</u> | <u>2,386,395</u> |
| End of year | <u>\$ 32,815,977</u> | <u>\$ 29,341,008</u> | <u>\$ 3,474,969</u> |

The Hospital's performance in 2020 produced an overall positive return on equity of 10.6% compared to prior year of positive return of 8.1%. The change in operations is the result of operating expenses increasing by approximately \$45,926,000 compared to an increase in operating revenues of \$35,259,000 for 2020.

Total operating revenue is comprised mainly of patient service revenue of approximately \$227,690,000. Other operating revenue of \$3,957,000 and rental income are the other components of operating revenue.

Expenses increased by approximately \$45,926,000 between 2020 and 2019. Salaries, wages and benefits increased by \$1,496,000 mainly due to additional staffing. Professional fees and contract services increased by \$47,903,000 over 2019, mainly due to long-term care services.

Nonoperating revenues (expenses) for 2020 changed from net expenses of approximately \$350,000 to net revenues of \$11,459,000. The change of \$11,808,000 is primarily related to COVID-19 grants revenue recognized of \$11,348,000 in 2020.

PUTNAM COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020

Table 3 – Statements of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balances during the reporting period?"

| Cash flows data | 2020 | 2019 | Change |
|---|----------------------|---------------------|----------------------|
| From operating activities | \$ 6,074,168 | \$ 9,230,739 | \$ (3,156,571) |
| From non-capital financing activities | 15,156,093 | 517,357 | 14,638,736 |
| From capital and related financing activities | (5,505,811) | (4,659,071) | (846,740) |
| From investing activities | 95,363 | 92,415 | 2,948 |
| Change in cash and cash equivalents | <u>\$ 15,819,813</u> | <u>\$ 5,181,440</u> | <u>\$ 10,638,373</u> |

Total cash and cash equivalents increased approximately \$15,820,000 in 2020. Operating activities increased cash and cash equivalents by \$6,074,000 during 2020 mainly from timing of operating assets and liabilities. Non-capital financing activities added \$15,156,000 in cash and cash equivalents due to COVID-19 grants. Capital and related financing decreased cash and cash equivalents by \$5,506,000 during 2020 mainly as the result of payments made on long-term debt combined with property and asset acquisitions. Investing activities increased cash and cash equivalents of \$95,000.

Total cash and cash equivalents increased approximately \$5,181,000 in 2019. Operating activities increased cash and cash equivalents by \$9,231,000 during 2019 mainly from favorable operations and timing of operating assets and liabilities. Non-capital financing activities increased \$517,000 in cash and cash equivalents. Capital and related financing decreased cash and cash equivalents by \$4,659,000 during 2019 mainly as the result capital asset purchases and payments on long-term debt and capital leases. Investing activities decreased cash and cash equivalents \$92,000.

Capital Assets

The change in capital assets is outlined in the following table:

| | 2020 | 2019 | Change |
|----------------------------|----------------------|----------------------|---------------------|
| Land and land improvements | \$ 1,620,919 | \$ 1,520,177 | \$ 100,742 |
| Buildings and improvements | 44,493,700 | 42,344,363 | 2,149,337 |
| Equipment | 28,911,887 | 27,904,844 | 1,007,043 |
| Construction in process | 215,213 | 1,339,503 | (1,124,290) |
| | <u>75,241,719</u> | <u>73,108,887</u> | <u>2,132,832</u> |
| Accumulated depreciation | <u>(49,516,426)</u> | <u>(46,665,253)</u> | <u>(2,851,173)</u> |
| Capital assets, net | <u>\$ 25,725,293</u> | <u>\$ 26,443,634</u> | <u>\$ (718,341)</u> |

During 2020, the Hospital invested approximately \$2,133,000 in capital assets compared to \$3,878,000 in 2019. Please refer to the notes to the financial statements for more detailed information on capital assets.

PUTNAM COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020

Debt

Total long-term debt and capital lease obligations (including current portions) increased from approximately \$15,489,000 to \$18,379,000 in 2020. The primary reason for the increase was a loan from the Payroll Protection Program of \$4,389,000 in 2020 offset by scheduled principal payments made during the year. The Hospital's outstanding balance on its line of credit of \$5,628,000 as of December 31, 2019 was paid in full during 2020. More detailed information about the Hospital's long-term debt, capital lease obligations and line of credit is presented in the notes to the financial statements.

Sources of Revenue

During 2020, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 67% of the Hospital's gross revenues in both 2020 and 2019. The remaining payors include commercial and self-pay.

Economic Outlook

In March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, continues to adversely impact the local, regional, national and global economies. The extent to which COVID-19 continues to impact the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

Contacting Hospital Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 1542 South Bloomington Street, Greencastle, Indiana 46135.

PUTNAM COUNTY HOSPITAL

STATEMENT OF NET POSITION
DECEMBER 31, 2020

ASSETS AND DEFERRED OUTFLOWS

Current assets

| | |
|--|---------------|
| Cash and cash equivalents | \$ 48,602,786 |
| Patient accounts receivable, net of allowance for uncollectible accounts of \$2,690,000 | 17,767,134 |
| Inventory | 893,520 |
| Prepays and other current assets | 4,553,770 |
| Estimated third-party settlements | 853,008 |
| Total current assets | 72,670,218 |

Assets whose use is limited

| | |
|--|-----------|
| Held by trustee for debt service and capital | 815,307 |
| Internally designated | 42,337 |
| Donor restricted | 202,463 |
| Total assets whose use is limited | 1,060,107 |

Capital assets, net

25,725,293

Other assets

630,609

Total assets 100,086,227

Deferred outflows

| | |
|------------------------------------|----------------|
| Goodwill, net | 1,429,417 |
| Total assets and deferred outflows | \$ 101,515,644 |

LIABILITIES AND NET POSITION

Current liabilities

| | |
|--|--------------|
| Current portion of long-term debt | \$ 5,935,983 |
| Current portion of capital lease obligations | 282,504 |
| Accounts payable | 22,281,245 |
| Accrued salaries, wages, and related liabilities | 5,917,431 |
| Accrued expenses and other current liabilities | 8,179,855 |
| Unearned grant revenue | 3,211,915 |
| Medicare accelerated/advance payments | 10,730,558 |
| Total current liabilities | 56,539,491 |

Long-term debt, net of current portion

11,975,959

Capital lease obligations, net of current portion

184,217

Total liabilities 68,699,667

Net position

| | |
|------------------------------------|----------------|
| Net investment in capital assets | 7,346,630 |
| Restricted | |
| Non-expendable | 133,681 |
| Donor restricted - expendable | 202,463 |
| Total restricted | 336,144 |
| Unrestricted | 25,133,203 |
| Total net position | 32,815,977 |
| Total liabilities and net position | \$ 101,515,644 |

See accompanying notes to financial statements.

PUTNAM COUNTY HOSPITAL

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2020

| | |
|---|----------------------|
| Operating revenues | |
| Patient service revenue | \$ 227,690,470 |
| Rental income | 151,044 |
| Other operating revenue | <u>3,956,742</u> |
| Total operating revenues | 231,798,256 |
| Operating expenses | |
| Salaries and wages | 23,413,808 |
| Employee benefits | 5,713,165 |
| Professional fees and contract services | 169,980,784 |
| Supplies | 18,999,375 |
| Insurance | 657,611 |
| Facility and equipment leases | 11,678,740 |
| Repairs and maintenance | 1,017,807 |
| Utilities | 637,478 |
| Training and education | 261,824 |
| HAF and HIP Programs | 1,769,118 |
| Depreciation and amortization | 3,052,973 |
| Other | <u>2,545,756</u> |
| Total operating expenses | <u>239,728,439</u> |
| Operating loss | (7,930,183) |
| Nonoperating revenues (expenses) | |
| Interest expense | (580,835) |
| Investment return | 95,363 |
| Contributions | 580,409 |
| COVID-19 grant funds | 11,348,015 |
| Other | <u>15,754</u> |
| Total nonoperating revenues (expenses) | <u>11,458,706</u> |
| Excess revenues over expenses | 3,528,523 |
| Other | |
| Distributions to non-controlling interest | <u>(53,554)</u> |
| Change in net position | 3,474,969 |
| Net position | |
| Beginning of year | <u>29,341,008</u> |
| End of year | <u>\$ 32,815,977</u> |

See accompanying notes to financial statements.

PUTNAM COUNTY HOSPITAL

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020

Operating activities

| | |
|--|------------------|
| Cash received from patients and third-party payors | \$ 236,197,705 |
| Cash paid for salaries, wages and benefits | (29,605,842) |
| Cash paid to vendors for goods and services | (204,625,481) |
| Other operating receipts, net | 4,107,786 |
| Net cash flows from operating activities | <u>6,074,168</u> |

Non-capital financing activities

| | |
|--|-------------------|
| COVID-19 grant funds | 14,559,930 |
| Other non-capital financing activities | 596,163 |
| Net cash flows from non-capital financing activities | <u>15,156,093</u> |

Capital and related financing activities

| | |
|--|--------------------|
| Distributions to non-controlling interest | (53,554) |
| Acquisition and construction of capital assets | (2,132,832) |
| Payments on line of credit | (5,628,260) |
| Proceeds from issuance of long-term debt | 4,970,850 |
| Payments on long-term debt and capital leases | (2,081,180) |
| Cash paid for interest | (580,835) |
| Net cash flows from capital and related financing activities | <u>(5,505,811)</u> |

Investing activities

| | |
|---|-------------------|
| Investment return | 95,363 |
| Net change in cash and cash equivalents | <u>15,819,813</u> |

Cash and cash equivalents

| | |
|-------------------|----------------------|
| Beginning of year | <u>33,843,080</u> |
| End of year | <u>\$ 49,662,893</u> |

Reconciliation of cash and cash equivalents to statement of net position

| | |
|---------------------------------|----------------------|
| Cash and cash equivalents | |
| In current assets | \$ 48,602,786 |
| In assets whose use is limited | 1,060,107 |
| Total cash and cash equivalents | <u>\$ 49,662,893</u> |

See accompanying notes to financial statements.

PUTNAM COUNTY HOSPITAL

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

| Reconciliation of operating loss to net cash flows from operating activities | |
|---|---------------------|
| Operating loss | \$ (7,930,183) |
| Adjustments to reconcile operating loss to net cash flows from operating activities | |
| Depreciation and amortization | 3,052,973 |
| Provision for bad debts | 5,456,893 |
| Changes in operating assets and liabilities | |
| Patient accounts receivable | (4,223,989) |
| Inventory, prepaids and other current assets | (2,310,149) |
| Other assets | 90,565 |
| Accounts payable | 3,378,017 |
| Accrued salaries, wages, and related liabilities | (478,869) |
| Accrued expenses and other current liabilities | (4,539) |
| Medicare accelerated/advance payments | 10,730,558 |
| Estimated third-party settlements | (1,687,109) |
| Net cash flows from operating activities | <u>\$ 6,074,168</u> |

See accompanying notes to financial statements.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Putnam County Hospital (the Hospital) is a county facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient, physician and long-term health care services. The Board of County Commissioners of Putnam County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Putnam County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present the financial position of the County as of December 31, 2020 and the changes in its financial position or its cash flows for the year then ended.

Accounting principles generally accepted in the United States require that these financial statements present the Hospital and its blended component units, collectively referred to as the "primary government." The blended component units, as discussed below, are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the primary government's operations and exist solely to provide services for the primary government; data from these units are with data of the primary government.

Components Units

The accompanying financial statements include the accounts of the Hospital's blended component units, Putnam Post-Acute Holdings, LLC (PPAH) and Putnam County Pain Management Center, LLC (PCPMC). The Hospital is the sole member of PPAH, a separate limited liability company which owns a 94 unit / 127-bed assisted living residence and skilled nursing facility in Howard County, Indiana. The Hospital is a majority owner (51%) of PCPMC, a separate for-profit entity, organized to support the operations of the Hospital by providing pain management services for the benefit of the greater Greencastle area and surrounding communities. All significant intercompany transactions have been eliminated in the financial statements. The separate financial statements for PPAH and PCPMC may be obtained through contacting management of the Hospital.

Long-Term Care Operations

The Hospital leases the operations of certain long-term care facilities, by way of arrangements with managers of these facilities, which provide inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers are on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

The Hospital entered into lease agreements with the long-term care facilities to lease the facilities managed by the respective managers. Concurrently, the Hospital entered into agreements with the managers to manage the leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through 2023. Generally, all parties involved can terminate the agreements without cause with 90 days written notice.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of 90 days or less from the date of purchase. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report for hospital-based services is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party programs. These programs have audited the year-end cost report filed with the Medicare program through the year ended December 31, 2019 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports are reflected in estimated third-party payor settlements on the statement of net position. During 2020, the amount recognized in the statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports increased net position by approximately \$28,000. Laws and regulations

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported within the statement of revenues, expenses and changes in net position, an estimated \$1,328,000 arose from providing services to charity patients for 2020. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses to patient service revenue.

Inventory

Inventory is valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out method. Inventory consists of medical supplies and pharmaceuticals.

Other Current Assets

Other current assets consist primarily of other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during the next fiscal year.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the financial statements. These assets include investments designated by the Hospital's Board of Trustees for internal purposes, investments held by trustees for debt service and capital improvements and assets that are donor restricted.

These investments consist of cash and cash equivalents. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the statement of revenues, expenses and changes in net position.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

Capital Assets and Depreciation

Capital assets, which include land and improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is determined by the Hospital based on individual asset cost and aggregate cost of similar assets. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is expensed as incurred and not capitalized.

Business Combinations and Deferred Outflows for Goodwill

The Hospital accounts for a business combination using the acquisition method of accounting, and accordingly, the assets of the acquired entity are recorded at estimated fair values at the date of acquisition. Deferred outflows for goodwill represent the excess of the purchase price over the fair value of assets, including amounts assigned to identifiable intangible assets, if any. Goodwill is amortized on a straight-line basis over a period of 10 years. As of December 31, 2020, the Hospital recorded goodwill of approximately \$2,018,000 related to its acquisition activities with accumulated amortization of \$589,000. Annual amortization is estimated at \$202,000 for the years ending December 31, 2021 through 2025 and \$419,000 in the years thereafter.

Net Position

The net position of the Hospital is classified into four components. (1) Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted non-expendable net position includes the principal portion of permanent endowments, if any, and non-controlling interests owned by external investors. (3) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital. (4) Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted. Restricted non-expendable net position includes non-controlling interest, which represents the portion of net position that is owned by the investors who are external to and not included in the financial statements of approximately \$134,000 as of December 31, 2020. This relates to the Hospital's blended component unit, PCPMC, in which external investors have a minority, non-controlling financial interest. The total net position activity for the controlling and non-controlling portions related to PCPMC for 2020 follows:

| | Controlling interest | Noncontrolling interest | Total |
|----------------------------|-------------------------|----------------------------|-------------------|
| Balance, beginning of year | \$ 202,856 | \$ 194,901 | \$ 397,757 |
| Distributions | (56,002) | (53,554) | (109,556) |
| Net loss | (7,979) | (7,666) | (15,645) |
| Balance, end of year | <u>\$ 138,875</u> | <u>\$ 133,681</u> | <u>\$ 272,556</u> |

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

Restricted Resources

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Statement of Revenues, Expenses and Changes in Net Position

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than interest costs.

Grants and Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

Advertising and Community Relations

The Hospital expenses advertising and community relations costs as they are incurred. Total expense for 2020 was approximately \$190,000.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused vacation is reported as a liability within the accrued salaries, wages, and related liabilities on the statement of net position.

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC). As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

As a single member limited liability company with the Hospital as the only member, PPAH is treated as a disregarded entity and does not file federal and state income tax returns. PPAH's activity is included in the Hospital's activities as required for a disregarded entity. PCPMC is a limited liability company and profits and losses are passed through to the members. PCPMC has filed its federal and state income tax returns for periods through December 31, 2020.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and its component units and recognize a tax liability if the Hospital or its component units have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and its component units and has concluded that as of December 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Medical Malpractice

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice through June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) through June 30, 2019. Beginning July 1, 2019, the Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for general liability and employee medical claims.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with the Hospital's legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations, and cash flows.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is September 11, 2023.

Upcoming Accounting Pronouncements

The Governmental Accounting Standards Board (the GASB) issued GASB Statement No. 87, *Leases*, which is effective for periods beginning after June 15, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

The GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is effective for periods beginning after December 15, 2020. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The Hospital is presently evaluating the impact of these standards on its future financial statements.

2. CHANGE IN ACCOUNTING PRINCIPLES

During 2020, the Hospital adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting issues related to asset retirement obligations and also provides guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. There was no impact to the financial statements as a result of adoption of this statement.

During 2020, the Hospital adopted GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement, which was adopted early, addressed the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit. There was no impact to the financial statements as a result of adoption of this statement.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

3. PATIENT ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Patient accounts receivable, accounts payable and accrued expenses included as current assets and liabilities consisted of the following as of December 31, 2020:

| | |
|---|----------------------|
| Patient accounts receivable | |
| Receivable from patients and third party payors | \$ 5,210,364 |
| Receivable from Medicare | 3,882,232 |
| Receivable from Medicaid | 1,123,804 |
| Receivable from long-term care operations | 15,462,371 |
| Total patient accounts receivable | 25,678,771 |
| Contractual allowances | (5,221,751) |
| Allowance for uncollectible accounts | (2,689,886) |
| Patient accounts receivable, net | <u>\$ 17,767,134</u> |
| Accounts payable and other accrued liabilities | |
| Payable to suppliers and other accrued expenses | \$ 30,461,100 |
| Payable to employees (including payroll taxes and benefits) | 5,917,431 |
| Total accounts payable and other accrued liabilities | <u>\$ 36,378,531</u> |

4. ASSETS WHOSE USE IS LIMITED

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Assets whose use is limited include:

Held by trustee for debt service and capital – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended for debt service and capital.

Internally designated – Amounts designated internally for various special purpose projects.

Donor restricted – Amounts restricted by donors which include expendable amounts based on donor stipulations.

The composition of assets whose use is limited as of December 31, 2020 follows:

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | |
| Held by trustee | \$ 815,307 |
| Internally designated | 42,337 |
| Donor restricted | 202,463 |
| | <u>\$ 1,060,107</u> |

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

5. CAPITAL ASSETS

The following is a progression of capital assets for 2020.

| | 12/31/19 | Additions | Retirements | Transfers | 12/31/20 |
|----------------------------|---------------|--------------|-------------|-------------|---------------|
| Land and land improvements | \$ 1,520,177 | \$ 100,742 | \$ -0- | \$ -0- | \$ 1,620,919 |
| Buildings and improvements | 42,344,363 | 782,752 | -0- | 1,366,585 | 44,493,700 |
| Equipment | 27,904,844 | 1,007,043 | -0- | -0- | 28,911,887 |
| Construction in process | 1,339,503 | 242,295 | -0- | (1,366,585) | 215,213 |
| Total capital assets | 73,108,887 | 2,132,832 | -0- | -0- | 75,241,719 |
| Accumulated depreciation | (46,665,253) | (2,851,173) | -0- | -0- | (49,516,426) |
| Capital assets, net | \$ 26,443,634 | \$ (718,341) | \$ -0- | \$ -0- | \$ 25,725,293 |

As of December 31, 2020, there were no significant outstanding commitments for capital assets.

6. LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt as of December 31, 2020 is as follows:

Direct borrowings

| | |
|---|--------------|
| Note payable #34199, due June 2025; fixed interest rate (3.95%), monthly principal and interest payments due in the amount of \$38,000; secured by property and equipment with a net book value of \$2,400,000 as of December 31, 2020 | \$ 1,881,818 |
| Note payable #33860, due June 2025; fixed interest rate (3.95%), monthly principal and interest payments due in the amount of \$35,000; secured by property and equipment with a net book value of \$2,400,000 as of December 31, 2020 | 1,710,743 |
| Note payable #41806, due November 2035; fixed interest rate (4.25%), monthly principal and interest payments due in the amount of \$12,000; secured by property and equipment with a net book value of \$1,600,000 as of December 31, 2020 | 1,591,899 |
| Note payable #351999, due December 2021; fixed interest rate (4.25%), monthly principal and interest payments due in the amount of \$16,000; secured by property and equipment with a net book value of \$600,000 as of December 31, 2020 | 188,678 |
| Mortgage note payable (project 073-22316) due September 2053; fixed interest rate (4.40%); monthly principal and interest payments due of \$31,000; secured by property and equipment with a net book value of \$6,811,000 as of December 31, 2020 | 6,207,884 |
| Note payable #53942, due October 2035; fixed interest rate (3.88%), monthly principal and interest payments due in the amount of \$3,500 with a balloon payment of \$189,000 due October 2035; secured by property and equipment with a net book value of \$600,000 as of December 31, 2020 | 578,493 |

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

| | |
|--|----------------------|
| Note payable #49973, due January 2023; fixed interest rate (4.15%), monthly principal and interest payments due in the amount of \$13,000; secured by property and equipment with a net book value of \$820,000 as of December 31, 2020 | 817,712 |
| Note payable #139787, due July 2022; fixed interest rate (2.79%), monthly principal and interest payments due in the amount of \$8,000; secured by property and equipment with a net book value of \$130,000 as of December 31, 2020 | 147,967 |
| Note payable #140086, due October 2022; fixed interest rate (2.74%), monthly principal and interest payments due in the amount of \$13,000; secured by property and equipment with a net book value of \$505,000 as of December 31, 2020 | 270,763 |
| Payroll Protection Program Loan | 4,389,100 |
| Other direct borrowings | 126,885 |
| Total direct borrowings | <u>17,911,942</u> |
| Current portion | <u>(5,935,983)</u> |
| | <u>\$ 11,975,959</u> |

The interest rates for notes payable #34199 and #33860 are reset every 60 months at prime plus 25 basis points with a floor of 3.95% and a ceiling of 7.00%. The interest rates cannot change more than 2% from the previous reset period. The most current rate reset for both notes payable was in June 2020 at 3.95% through June 2025.

The interest rates for notes payable #41806 and #351999 were amended in April 2016 to state a fixed interest rate of 4.25% through maturity dates in November 2035 and December 2021, respectively.

The mortgage note payable, held by PPAH, is HUD-insured Section 232 pursuant to Section 223(f). It was issued in August 2018 and is payable to Lument Capital, LLC.

In April 2020, the Hospital received a low interest loan of approximately \$4,389,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA). The PPP loan was unsecured, with fixed interest at 1% and funds advanced under PPP were subject to forgiveness, if certain criteria were met, with the remaining balance repayable within two years of disbursement. The PPP loan was forgivable to the extent that the Hospital incurred and spent the funds on qualified expenditures, which included payroll, employee health insurance, rent, utilities, and interest costs during the covered period as defined by the PPP guidance. In addition, the Hospital was required to maintain specific employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness.

The Hospital elected to account for the PPP loan as debt and recognize any forgiveness when it was legally forgiven. During 2021, the Hospital was notified by the SBA of full forgiveness of the PPP loan and will recognize approximately \$4,389,000 as debt forgiveness in the 2021 statement of revenues, expenses, and changes in net position.

PUTNAM COUNTY HOSPITAL

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DECEMBER 31, 2020

Though legally forgiven by the SBA during 2021, the entire balance of the PPP loan is classified as current debt as of December 31, 2020. Aggregate maturities of long-term debt are as follows:

| Year Ending December 31, | Direct Borrowings | | |
|-----------------------------|-------------------|--------------|---------------|
| | Principal | Interest | Total |
| 2021 | \$ 5,935,983 | \$ 527,486 | \$ 1,384,811 |
| 2022 | 1,204,567 | 475,705 | 1,680,272 |
| 2023 | 1,070,635 | 432,237 | 1,502,872 |
| 2024 | 1,114,529 | 389,199 | 1,503,728 |
| 2025 | 708,675 | 347,436 | 1,056,111 |
| 2026 - 2030 | 1,629,447 | 1,525,722 | 3,155,169 |
| 2031 - 2035 | 1,930,474 | 1,183,026 | 3,113,500 |
| 2036 - 2040 | 958,399 | 913,781 | 1,872,180 |
| 2041 - 2045 | 1,193,758 | 678,422 | 1,872,180 |
| 2046 - 2050 | 1,486,916 | 385,264 | 1,872,180 |
| 2051 - 2053 | 678,559 | 61,527 | 740,086 |
| | \$ 17,911,942 | \$ 6,919,805 | \$ 19,753,089 |

The Hospital has capital lease obligations for medical equipment that run through June 2025. Interest rates range from 2.00% to 3.98% with monthly interest and principal payments ranging from approximately \$500 to \$15,000. The cost of equipment under capital leases was \$2,433,000 with accumulated depreciation of \$1,995,000, resulting in net book value of \$438,000 as of December 31, 2020.

The following is summary of minimum lease payments for years subsequent to December 31, 2020:

| Year Ending December 31, | |
|-----------------------------|------------|
| 2021 | \$ 168,531 |
| 2022 | 137,809 |
| 2023 | 115,296 |
| 2024 | 47,757 |
| 2025 | 23,840 |
| | 493,233 |
| Interest | (26,512) |
| | \$ 466,721 |

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

The following is a progression of long-term debt direct borrowings and capital lease obligations for 2020.

| | 12/31/19 | Additions | Payments | 12/31/20 | Current Portion |
|-------------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| Direct borrowings | | | | | |
| Notes payable | \$ 14,626,849 | \$ 581,750 | \$ (1,685,757) | \$ 13,522,842 | \$ 1,546,883 |
| PPP loan | -0- | 4,389,100 | -0- | 4,389,100 | 4,389,100 |
| Total direct borrowings | 14,626,849 | 4,970,850 | (1,685,757) | 17,911,942 | 5,935,983 |
| Capital leases | 862,144 | -0- | (395,423) | 466,721 | 282,504 |
| | <u>\$ 15,488,993</u> | <u>\$ 4,970,850</u> | <u>\$ (2,081,180)</u> | <u>\$ 18,378,663</u> | <u>\$ 6,218,487</u> |

The Hospital had a line of credit available with First National Bank with a maximum amount for \$7,000,000 with no outstanding balance as of December 31, 2020. The line of credit was at a variable interest rate of prime plus 25 basis points (5.25% as of December 31, 2020) and was secured by property and equipment with a net book value of \$7,000,000. The line of credit matured in January 2021 and was not renewed.

7. PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

Medicaid and the Indiana Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

PUTNAM COUNTY HOSPITAL

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The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also fund the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2020, the Hospital recognized HAF and HIP Program expense of approximately \$1,769,000, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the statement of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF and HIP Programs are included in patient service revenue in the statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$420,000 during 2020. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The following is a summary of patient service revenue for 2020:

| | |
|-------------------------------|-----------------------|
| Inpatient services | \$ 36,218,895 |
| Outpatient services | 52,374,838 |
| Emergency room services | 37,601,332 |
| Long-term care services | <u>371,022,889</u> |
| Gross patient service revenue | 497,217,954 |
| Contractual allowances | (262,449,043) |
| Charity care | (1,621,548) |
| Provision for bad debts | <u>(5,456,893)</u> |
| Deductions from revenue | <u>(269,527,484)</u> |
| Patient service revenue | <u>\$ 227,690,470</u> |

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

8. EMPLOYEE HEALTH BENEFITS

The Hospital is self-insured for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$100,000 per individual per policy year, with an estimated minimum attachment point of approximately \$3,494,000 (calculated as twelve times the monthly aggregate factors, times the total number of covered units) where stop loss coverage is phased in when this threshold is reached. The individual and aggregate stop/loss policy covers only health claims incurred by providers other than the Hospital. In-house claims are not covered under the individual and aggregate stop/loss. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. Total health insurance expense for 2020 was approximately \$3,379,000. Changes in the balance of claim liabilities during 2020 are as follows:

| | |
|--|--------------------|
| Unpaid claims | |
| Beginning of year | \$ 380,000 |
| Incurred claims and changes in estimates | 3,379,061 |
| Claim payments | <u>(3,379,061)</u> |
| End of year | <u>\$ 380,000</u> |

9. PENSION PLANS

The Hospital offers three pension plans to eligible employees, the Putnam County Hospital Money Purchase Pension Trust (401a Plan), the Putnam County Hospital Retirement Plan (403b Plan) and the Putnam County Hospital 457 Plan (457 Plan), collectively referred to as "the Plans". The Plans provide retirement, disability and death benefits to their participants and beneficiaries. The Plans were established by written agreements between the Hospital's Board of Trustees and the administrator of the Plans, Lincoln Financial Group (Lincoln). Information can be obtained for the Plans by contacting Lincoln.

The 401a Plan is funded through only Hospital contributions as employee contributions are not permitted. The Hospital funds the 401a Plan at 4% of eligible compensation as defined by the 401a Plan document. Expense related to the 401a Plan for 2020 was approximately \$513,000, net of forfeitures. Employees are eligible to participate in the 401a Plan after completing one year of service as defined by the 401a Plan document with enrollment dates of January 1 and July 1. Vesting begins after 3 years of participation at 20% and increases 20% annually until fully vested at 7 years.

The 403b and 457 Plans are funded by employee only contributions. Therefore, the participants are fully vested at all times in their balances.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

10. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Green Castle, Indiana and grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2020 was as follows:

| | <u>Receivables</u> | <u>Revenue</u> |
|-----------------------------|--------------------|----------------|
| Medicare | 38% | 48% |
| Medicaid | 11% | 19% |
| Commercial and other payors | 30% | 30% |
| Self-pay payors | 21% | 3% |
| | <u>100%</u> | <u>100%</u> |

11. OPERATING LEASES

The Hospital has operating leases for space and equipment that expire at various times through 2022. Expenses related to these leases approximated \$20,000 for 2020. Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$11,659,000 for 2020. The long-term care leases can be terminated with 90 day notice by either the lessor or the Hospital. Annual rent expense through 2023 approximates \$12,000,000 under these long-term care leases.

The Hospital also leases space to physicians and other medical providers on its main campus and at other ancillary locations. The lease agreements are generally one-year commitments that renew automatically for another year. During 2020, the Hospital recognized approximately \$100,000 in revenue related to these leases. During 2021 and 2022, the Hospital expects to recognize approximately \$100,000 annually in revenue related to these leases.

12. BLENDED COMPONENT UNITS

The Hospital's financial statements include the accounts of its blended components units, PPAH and PCPMC. The financial statements for PPAH are separately audited to comply with the U.S. Department of Housing and Urban Development (HUD) program under Section 232 pursuant to Section 223(f) – Mortgage Insurance for Nursing Homes, Intermediate Care Facilities, Board & Care Homes and Assisted-Living Facilities. More detailed financial information for PPAH and PCPMC may be obtained through contacting the accounting department of the Hospital.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Below is condensed financial information for these entities for 2020.

| | PPAH | PCPMC |
|--|--------------|--------------|
| Statement of net position | | |
| Assets | | |
| Cash | \$ 232,614 | \$ 100,954 |
| Accounts receivable, net | -0- | 301,545 |
| Due from Hospital | -0- | 946,323 |
| Other assets | 856,797 | -0- |
| Property and equipment, net | 6,719,651 | -0- |
| Total assets | 7,809,062 | 1,348,822 |
| Deferred outflows | 1,429,417 | -0- |
| Total assets and deferred outflows | \$ 9,238,479 | \$ 1,348,822 |
| Liabilities | | |
| Accounts payable | \$ 42,231 | \$ 5,257 |
| Due to Hospital | 35,129 | 1,071,009 |
| Long-term debt | 6,207,884 | -0- |
| Total liabilities | 6,285,244 | 1,076,266 |
| Net position | 2,953,235 | 272,556 |
| Total liabilities and net position | \$ 9,238,479 | \$ 1,348,822 |
| Statement of revenues, expenses and changes in net position | | |
| Revenues | | |
| Patient service revenue | \$ -0- | \$ 502,290 |
| Rental income from Hospital | 682,379 | -0- |
| Total revenues | 682,379 | 502,290 |
| Expenses | | |
| Salaries and wages | -0- | 195,656 |
| Depreciation and amortization | 568,101 | -0- |
| Other | 197,787 | 322,279 |
| Total expenses | 765,888 | 517,935 |
| Operating loss | (83,509) | (15,645) |
| Nonoperating revenues (expenses) and distributions | (666,188) | -0- |
| Change in net position | (749,697) | (125,201) |
| Net position | | |
| Beginning of year | 3,702,932 | 397,757 |
| End of year | \$ 2,953,235 | \$ 272,556 |

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

| | PPAH | PCPMC |
|--|--------------|--------------|
| Statement of cash flows | | |
| Net cash flows from | | |
| Operating activities | \$ (749,697) | \$ (125,201) |
| Capital and related financing activities | (606,376) | 147,511 |
| Change in cash and cash equivalents | (1,356,073) | 22,310 |
| Cash | | |
| Beginning of year | 1,588,687 | 78,644 |
| End of year | \$ 232,614 | \$ 100,954 |

13. COVID-19 GRANTS

In 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the Coronavirus (COVID-19) pandemic. The Hospital received approximately \$14,560,000 in PRF from the CARES Act during 2020. PRF amounts received were recognized as grant revenue to the extent the Hospital met the terms and conditions related to COVID-19 expenses and lost revenues as outlined by the federal grantor guidelines. The Hospital recognized PRF of \$11,348,000 as COVID-19 grant funds in nonoperating revenues (expenses) in the statement of revenues, expenses and changes in net position for 2020. The Hospital recorded a liability on the statement of net position for unearned grant revenue of \$3,212,000 as of December 31, 2020 as the terms and conditions related to the funding had not been met at the end of year.

The CARES Act also allowed health care providers to request accelerated and advance payments for Medicare services which the Hospital received approximately \$10,731,000 during 2020. Medicare accelerated and advance payments were included in current liabilities on the statement of net position. Settlement of these funds began during 2021.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, the Hospital received additional COVID-19 funding of approximately \$1,817,000.

Subsequent to December 31, 2020, the Hospital made periodic repayments which totaled approximately \$10,731,000 of Medicare accelerated and advance payments with the final payment made in May 2022.

The CARES Act included a provision for the Employee Retention Tax Credit (ERTC). The ERTC is a fully refundable tax credit for employers equal to 70 percent of qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees. The ERTC applies to qualified wages paid in calendar year 2021. The credit is 70% of the first \$10,000 in wages per employee in each quarter of calendar year 2021 meaning the ERTC is worth up to \$7,000 per quarter and up to \$28,000 per calendar year, for each employee. Subsequent to December 31, 2020, the Hospital qualified for an ERTC credit of approximately \$4,878,000 and received the funds in September 2021.